Edmonton International Industries Ltd.

Annual Report 1979

Edmonton International Industries Ltd.

Corporate Information

Directors

D.W. Bennett
R.G. Booth
B.L. Lambert
K.H. Lambert
L.T. Lambert
R. Melchin
W.A. Pratt
W. Shandro
R. Sloane

Officers

L.T. Lambert	Chairman
K.H. Lambert	President
B.L. Lambert	Vice President-Treasurer
R.G. Booth	Vice President
R. Sloane	Vice President
W. Shandro	Secretary

Head Office

14325 - 114 Avenue
Edmonton, Alberta
T5M 2Y8

Officers and Management of Tract Equipment Division

L.T. Lambert	President
B.L. Lambert	Vice President-Treasurer
W.A. Pratt	Vice President-Recreational Products
R. Druet	Vice President-Industrial Products
G. Myck	Parts and Clothing Manager
B. Bulger	Service and Warranty Manager
R. Peachy	Manager-Calgary Industrial Branch

Head Office

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Officers and Management of Odyssey Resources Ltd.

K.H. Lambert	President-General Manager
B.L. Lambert	Vice President
L.C. Lambert	Secretary-Treasurer

Head Office

808, 324 - 8 Ave. S.W.
Calgary, Alberta
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Officers and Management of SDS Drilling Group

K.H. Lambert	Chairman
D.W. Bennett	President-General Manager
R. Wilderman	Vice President-Contracts Manager
L. Zschockelt	Vice President - Equipment Manager
D.M. Larson	Foreign Operations Manager
R.A. Shelley	Secretary-Treasurer

Head Office

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Officers and Management of SDS Transport Division

D.W. Bennett	President
R. Bowers	Operations Manager
R.A. Shelley	Secretary-Treasurer

Operations Office

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British Columbia
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Transfer Agent

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401 - 9th Avenue, S.W. Calgary, Alberta
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Listed

Alberta Stock Exchange

Edmonton International Industries Ltd.

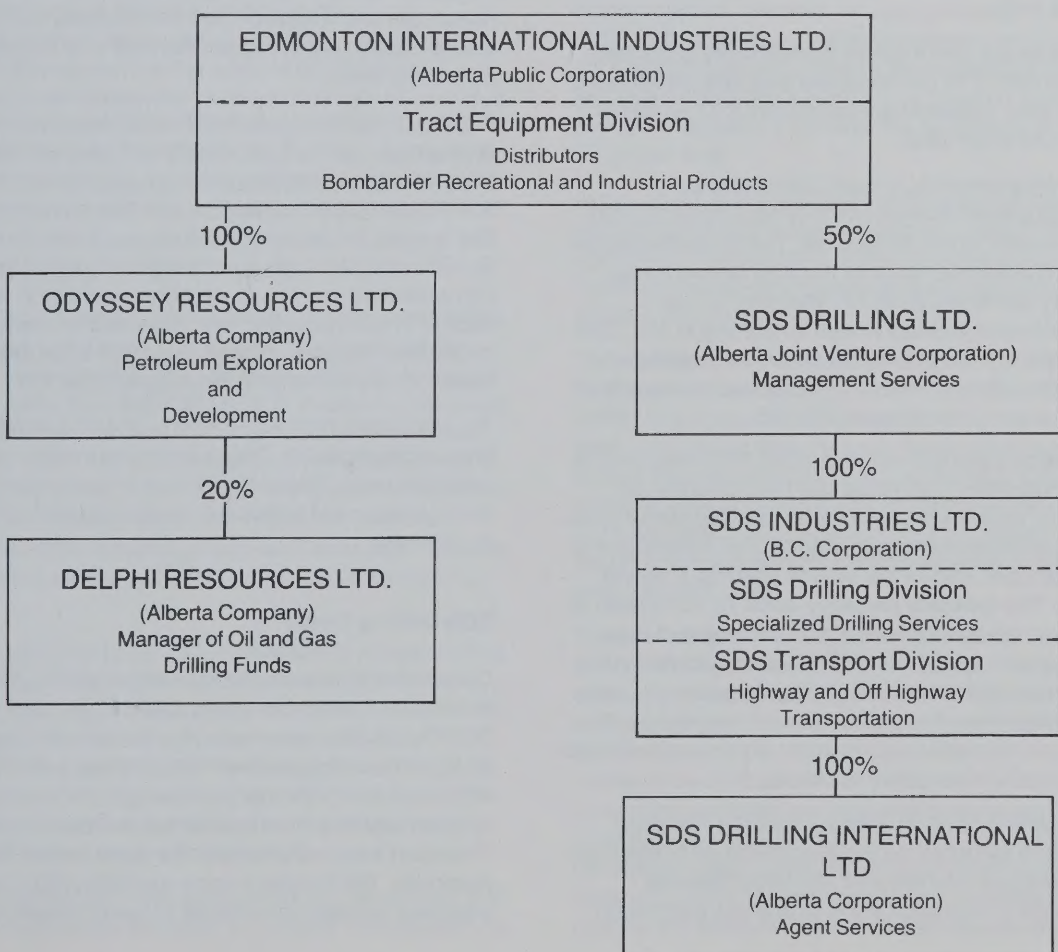
Financial Highlights

Year Ended November 30

	1979	1978	1977	1976	1975
Gross revenues	**$ 19,471,656**	$ 16,070,624	$11,263,566	$6,303,582	$ 149,880
Income before extraordinary items	**$ 679,772**	$ 484,179	$ 570,603	$ 261,997	$ 73,450
Income after extraordinary items	**$ 907,346**	$ 546,819	$ 765,663	$ 957,280	$ 138,585
Cash flow from operations	**$ 1,551,842**	$ 1,133,258	$ 1,286,790	$1,004,703	$ 138,585
Earnings per share *					
before extraordinary items	**$ .21**	$ .15	$ .17	$ .09	$ .04
after extraordinary items	**$ .27**	$ .17	$ .23	$ .35	$ .08
Average common shares outstanding	**3,300,000**	3,300,000	3,300,000	2,759,577	1,678,729
Common shares outstanding at year end	**3,300,000**	3,300,000	3,300,000	3,300,000	1,678,729
Working capital	**$ 3,385,032**	$ 3,766,665	$ 2,942,790	$2,835,907	$ 107,534
Total assets	**$ 17,237,316**	$ 14,295,430	$11,217,449	$8,563,298	$1,676,515
Shareholders equity	**$ 6,063,117**	$ 5,155,771	$ 4,604,666	$3,843,289	$1,670,055

* based on average common shares outstanding

Corporate Structure



Report to Shareholders

This year Edmonton International Industries Ltd. continued to pursue its objective of redirecting and expanding its activities. The most potentially significant development was the increased participation in the oil and gas exploration industry where the company has obtained varying interests in numerous properties prospective for oil and gas. Our 50 per cent owned SDS Drilling Group has streamlined its operations by consolidating its activities under one entity and redirecting its energies to the Canadian market. Tract Equipment improved its profit by a respectable 52 per cent. The Company also acquired an interest in some British Columbia placer leases prospective for gold production.

Financial

In the 12 months ending November 30, 1979, consolidated gross revenues increased 21 per cent to $19,471,656 as compared with $16,070,624 for the previous year and consolidated income before extraordinary item increased 40 per cent to $679,772 as compared with $484,179 last year.

Consolidated extraordinary income in fiscal 1979 resulting from income tax reductions due to applying a loss carryforward for income tax purposes increased 266 per cent to $227,574. Consolidated extraordinary income in fiscal 1978 resulting from similar income tax reductions was $62,640.

Consolidated earnings per share before extraordinary items were $.21, up 40 per cent from $.15 per share last year and consolidated earnings per share after extraordinary items were $.27 up 59 per cent from $.17 per share last year.

The improved earnings picture is, in part, attributable to the company's Tract Equipment division which contributed $192,000 more to earnings this year than it did last year. The company's 50 per cent share of the Canadian earnings for the SDS Drilling Group before extraordinary items was $355,547 this year but the company's share of losses in Saudi Arabia amounting to $201,894 reduced the company's share of the SDS Group's consolidated earnings before extraordinary items to $153,653, an increase of 61 per cent over the last year's earnings of $95,785.

During the year the company converted its $545,000 investment in Terra Mining and Exploration Ltd. notes into 146,505 common shares of Terra. Prior to year end the company sold 60,000 of these shares which resulted in pre-tax income of $105,348. Subsequent to the year end the company sold further shares realizing a pre-tax income of $73,388. The company presently holds 73,155 shares of Terra representing a potential additional pre-tax income of more than $500,000 at current market prices. This substantial rise in the value of Terra shares is attributable to dramatic increase in the price of silver over the past few months as Terra's main assets include three silver mines near Great Bear Lake in the Northwest Territories and several valuable silver properties in Mexico.

The company's interest costs increased significantly this year. Factors contributing to this increase included the much higher bank interest rates experienced over the year and the substantial investment the company has made in the oil and gas exploration business financed with borrowed funds. This increased interest expense impacted directly on the company's earnings this year. The company's oil and gas properties have not yet reached the development stage and no material revenues were produced from the properties. The negative impact to earnings of interest expenses attributable to the oil and gas business is expected to be counter balanced by revenues from the properties in future years.

Tract Equipment

The company's principle business is its Tract Equipment division which contributed $14,041,067 in sales this year, an increase of 12.5 per cent over last year's sales of $12,477,012.

Tract Equipment distributes Bombardier Limited recreational products, including Ski-Doo and Moto-Ski snowmobiles and Can-Am motorcycles with their related parts and accessories in Alberta, the Yukon, and the Northwest Territories. Tract Equipment also retails Bombardier Limited industrial tracked vehicles and their related parts and accessories in Alberta, Saskatchewan, the Yukon, and the Northwest Territories.

Ski-Doo and Moto-Ski sales to dealers this season prior to year end were excellent. However, the general lack of snow throughout the distributorship after November and the frequent cold spells have reduced anticipated sales at the retail level. Lower retail sales had a negative impact on Tract Equipment's sales to dealers after November and it appears that the inventory carryover until the 1981 selling season will be higher than last year at both the dealer and distributor levels.

In order to help move some of the higher priced snowmobiles into the consumers' hands, Tract Equipment has recently implemented a general sales promotion campaign. During the term of the promotion both the participating dealers and their customers can earn a three-day free trip to Las Vegas with the purchase of selected models of Ski-Doo and Moto-Ski. Taking the high cost of inventory financing into consideration, this promotional package is very beneficial to each of Tract Equipment, the dealer and his customer. Management hopes that this plan will stimulate retail sales thereby reducing inventory and enhancing the prospects for 1981 model sales.

The continuing high activity in the oil and gas industry had a favourable impact on Tract's industrial tracked vehicle and parts sales this year. Tract's total industrial sales increased over last year and management anticipates continuing strength from this department.

SDS Drilling Group

Consolidated revenues for the company's 50 per cent equity interest in the SDS Drilling Group increased 52 per cent from $3,483,013 to $5,277,390 this year over last year and operating profits were $153,653 as compared with $95,785 last year. The extraordinary income of $227,574 this year and $62,640 last year was attributable to gains resulting from income tax reductions due to applying Keen Transport losses of prior years against current income for tax purposes. The taxable income earned by SDS Industries Ltd. this year was sufficient to utilize all of Keen Transport's prior losses and

no further extraordinary income will be generated from this source in the future.

The SDS Group's Canadian operations this year produced $700,712 in income before taxes during the current year after paying $801,623 in interest expenses and providing for $814,251 in depreciation charges on the group's assets. A significant portion of this increase is attributable to the acquisition in December 1978 of the Becker Drills operation. This acquisition contributed about 55 per cent of the total drilling revenues but added only marginally to the overhead in all areas except interest expense. The division was purchased with borrowed funds and the interest expense attributable to the capital purchase and the additional working capital requirements was a significant contributing factor in the increased interest costs to the SDS Group this year.

In order to simplify the administration of the SDS Canadian drilling operation and to provide a more substantial balance sheet for borrowing purposes, SDS Industries Ltd. acquired 100% of SDS Drilling Management, a partnership owned by the shareholders of SDS Drilling Ltd. Upon the acquisition, the partnership disappeared and the Becker Drills division was integrated into the SDS Drilling division. New management contracts were executed between the managers and SDS Drilling Ltd. which became the management vehicle for the SDS Group operations. The new structure gives SDS Drilling Ltd. beneficial ownership and management of all of the assets and businesses of the SDS Group.

During the year SDS Drilling completed two more contracts to install transmission tower anchors on two segments of the power transmission corridor from James Bay to Montreal. Late in the fall SDS obtained another contract in the range of $2,000,000 for additional Quebec transmission line work which is being completed this winter. At the present time the SDS Canadian operation has more work on hand or in progress than ever before and the February 1980 drilling revenues are expected to reach $1,300,000, a new monthly record for the division. The outlook for the Canadian operation is positive and management anticipates continuing improvement in profitability and cash flow for this division.

The experience the SDS Drilling Group has endured in Saudi Arabia is very sobering and a decision has been made to terminate the Group's activities there. The first job, which was completed over one year ago, still has more than $850,000 in SDS invoices outstanding. This receivable problem has strained the Group's working capital and has negatively impacted the earnings this year as bank funds at high interest rates were required to replace the capital tied up in the receivable. The work represented by this receivable was finally approved by the Saudi Ministry of Agriculture in December 1979 and management is anticipating payment in full no later than April 15, 1980.

During the year SDS formed a 50-50 partnership with a Saudi drilling contractor owned by a Saudi prince to utilize the SDS equipment located in that country. This arrangement was made on the belief that the local partner would provide the venture with sufficient work to gainfully employ its men and equipment, would collect all accounts and would keep the venture in good standing under Saudi laws. The venture did not receive sufficient revenues to be profitable and by November 30, 1979 it had incurred substantial losses.

Because of these losses SDS elected to terminate the venture, sell the equipment and repatriate its capital to Canada. Unfortunately, a dispute has arisen on how to terminate the venture and SDS in now involved in some delicate negotiations to extract its operations from the country. At the present time the SDS equipment is located within the partner's compound and all employees except the manager have returned to Canada. SDS has retained local legal counsel to represent its interests and has been in close contact with the Canadian embassy concerning the matter. SDS management has been informed that the issue should be resolved in SDS's favour. However, based on previous experience, management anticipates the negotiations to be slow and painful.

The SDS Transport division which operates from its nine acre base at Fort Nelson on the Alaska Highway increased its revenues from $576,778 last year to $1,298,659 this year although it still experienced a small loss after interest expenses, management fees to the parent and depreciation expenses. Management believes the current operation is an improvement over that of prior years and is forecasting a respectable profit for the fiscal 1980 period. Revenues in January of 1980 increased 259 per cent to $324,000 over the similar month last year. SDS Transport is strategically located to provide services for the construction of the proposed Alaska Highway gas pipeline. Such a project, if commenced, should have a significant positive impact on the profitability of this division.

Oil And Gas Exploration

The company, through its wholly owned subsidiary, Odyssey Resources Ltd., entered into a program agreement in September, 1978, with a number of other companies wherein a total of $8,175,000 was committed by those participating companies for oil and gas exploration expenditures covering the 23 month life of the program. Odyssey's share of this commitment was $1,500,000 or 18.35 per cent.

In late 1979, Edmonton International Industries Ltd. purchased an additional interest in the program from one of Odyssey's co venturers. The net effect of the purchase was to increase the combined assets of Odyssey and the company in the program to a $2,043,750 commitment or 25 per cent.

The operator of the exploration program is MRI Petroleum Ltd., a wholly owned subsidiary of Mineral Resources International Ltd. (MRI). The operator will earn a one-third interest in the program's lands and assets after the participants have recovered 125 per cent of their commitment. Under the agreement, Odyssey and the company also acquired a right to participate on an unpromoted basis in 15 per cent of any petroleum related project undertaken outside the program agreement by MRI or its affiliates anywhere in the world until August 1, 1986.

The operating staff includes two geophysicists, two geologists, and a petroleum engineer who collectively possess over 90 years of exposure to petroleum exploration throughout the world. All have worked as key men on teams responsible for significant hydro-carbon discoveries. The program's method of operation is to delineate leads to potentially profitable hydro-carbon deposits by integrating available geological and production information with available seismic control, usually after sophisticated reprocessing of the seismic data. Leads so delineated are then subjected to detailed seismic surveys, the data from which are subjected to high resolution processing designed to provide data capable of interpretation in both

strategraphic and structural terms. The tools which make this approach possible are modern and, up until very recently, their use has been confined almost entirely to the larger oil companies.

Utilizing this seismic technology, the program has been successful in identifying and drilling three Glauconite channel sands near Retlaw in Southern Alberta. Two of these sands yielded gas wells with pay thicknesses of 41 and 82 feet and the third was an oil and gas well with 28 feet of oil pay and 11 feet of gas pay. In the general vicinity of Retlaw, the program holds interests in 37,920 gross acres with working interest varying between 8.5 per cent and 50 per cent. Within this acreage the operating staff has identified a further 14 locations prospective for Glauconite oil and/or gas which are programmed to be drilled this year.

Based on the technical successes to date in the Retlaw area, the program has recently farmed into an additional 92 sections (58,880 acres) in the Kitsim area of Southern Alberta prospective for Glauconite channel sand development suitable as oil and gas reservoirs. The program will earn a 14 per cent working interest in the program's choice of 30 sections of this block for paying 28 per cent of the costs of 100 miles of seismic and 10 wells to be shot and drilled on this farm in acreage this year.

Another significant block of land held by the program is located in the Atlee Buffalo area of Southern Alberta. Here the program has acquired by farm-in a 30 per cent working interest in 50,560 acres prospective for heavy oil. Three wells have been drilled to date on this acreage and in two of them heavy oil was recovered on drill stem tests. None of these wells were cased but the information gained will be helpful in locating future well sites.

Total land holdings of the program include over 30 separate locations which cover 292,829 gross acres in leases and permits plus 121,440 gross acres held under option. These lands expose the company to substantial oil and/or gas plays in Alberta, Saskatchewan, the Northwest Territories and Ontario.

One of the most significant current activities of the program is the assessment of the first well on the program's 186,000 acre block in West Cameron Hills, just north of the Alberta-Northwest Territories border. The program had a 90% working interest in this block which is adjacent to the route of the proposed Norman Wells oil and gas pipelines and has entered into a farmout agreement with two senior Canadian independent oil companies. Under the agreement the farmees have committed to shoot a detailed seismic program and to drill two wells with an option to drill three more wells to earn a 45% working interest in the entire block. The company's carried interest in the first two wells is 7.5 per cent.

The first well drilled under the terms of the above farmout has now been completed and is currently being abandoned. The well, which was drilled for Keg River and Slave Point objectives, encountered approximately 83 metres of highly porous Keg River reef which yielded minor hydrocarbon shows and quantities of heavily gas cut salt water on drill stem tests. All data is presently being reviewed and integrated into the regional concepts postulated prior to the drilling of the well. Acquisition and processing of detailed seismic is currently in progress. Selection of the next drilling location has now been delayed pending integration of the new seismic and well data. For logistical reasons, it appears probable that the balance of the above drilling program will be carried out in the winter of 1980-81.

The West Cameron Hills play is located in a postulated Keg River sub-basin with potential for reef development, similar to the Zama-Rainbow area 60 miles to the south. The play is prospective for gas in the Slave Point limestone and oil in the Keg River sub-basin.

To date, the program has participated in 41 exploratory wells resulting in 11 oil wells, 11 gas wells and 19 dry holes.

In addition to the interests in the program, Odyssey has a 3.5 per cent working interest in a wildcat well presently being drilled on a 14,000 acre block in the San Luis Obispo and Santa Barbara Counties in California. The well is currently at about the 11,000 foot level on its way to 15,500 feet. This prospect has an extremely exciting upside potential but the likelihood of success on such a wildcat well is only about one chance in twenty.

Delphi Resources Ltd., a company in which Odyssey has a 20 per cent equity interest, has raised $2,000,000 in third party drilling funds to be spent farming into prospects developed by the program in which Odyssey is involved. Odyssey's equity interest in Delphi is equivalent to a 3 per cent net profits interest in the drilling fund after payout. The drilling fund has committed to participate in about 20 program prospects and has an interest in most of the significant wells drilled by the program.

The joint venture exploration program is scheduled to terminate by the end of July this year. Because of the high calibre of the program's operating personnel and the success the program has experienced to date, the company is attempting to negotiate with MRI and the other joint venturers the creation of a permanent vehicle with which the company might continue to joint venture in the oil and gas business in the future. The present concept is that some or all of the program's present assets plus those of Delphi Resources Ltd. might be rolled into a new company (Newco) in exchange for shares. Newco would be managed by the program's management team and the parties rolling properties into Newco would be given a preferential opportunity to participate with Newco on future oil and gas ventures. Newco would finance itself by issuing shares to the public and by managing drilling funds of third parties. Although there can be no assurance that Newco will be formed, its formation would provide the company with a vehicle capable of giving the company oil and gas investment opportunities over the longer term without the risks inherent in establishing the company's own independent operations. The Newco shares would also provide an attractive investment opportunity for the company.

Pursuant to the September 1978 program agreement, Odyssey received options to purchase 188,927 shares of Mineral Resources International Ltd. at $1.60 per share at any time until September 7, 1980. On January 31, 1980 Odyssey exercised these options and received 188,927 warrants entitling it to purchase a further 62,976 common shares of MRI at $1.50 per share on or before February 28, 1980. The cost of these securities to Odyssey was $311,729. The present market value of these securities is in the range of $660,000.

Gold Property Acquisition

The fear of continuing rapid inflation and the unsettled international political climate has resulted in the phenominal recent surge in precious metal prices. The price of gold reached a record of almost $1,000 Canadian per troy ounce and is currently oscillating in the range of $800 Canadian per troy ounce.

Edmonton International Industries Ltd.

The current gold price is over 20 times the price of gold ten years ago. This substantial increase has created much interest in prospective gold producing properties as the operating economics have been so significantly enhanced. Your managment is cognizant of these factors and has been in the market place looking for suitable properties that might give the company some protection against inflation and participation in the precious metal business.

In February, 1980 the company entered into an agreement to provide about 84 per cent of the financing of some British Columbia placer gold leases in exchange for a 41 per cent interest in the placer leases. The 41 per cent interest is subject to a reduction of up to one-half pursuant to a short term option granted to a third party to provide up to 50 percent of the financing committed by the company in exchange for a pro rata interest in the leases.

The company has not obtained an independent engineer's report on the leases as the property is under several feet of snow. However, old engineer's reports infer over 1,000,000 cubic yards of gravels estimated to contain an average of about .02 ounces of gold per cubic yard based on a sample trench cut 12 feet wide, 10 feet deep and 700 feet long. No "front money" was required and the company is free to terminate the agreement at any time if satisfactory results are not obtained. Based on information provided to the company, the cash required to put the property into production on an economic scale is in the range of $200,000. Should the property prove economic, it would be the operator's intention to process about 200,000 cubic yards of gravels per year, commencing in 1980, working only during the summer months.

Shareholders Rights Offerings

Because of the company's increased investment in the petroleum industry, your board of directors has determined that the company should raise additional share capital by offering the company's securities to its shareholders.

Subject to the approval of the relevant authorities, it is the company's intention to offer to shareholders the right to purchase either three shares without nominal or par value at $2 each or one $4 preference share convertible into two shares without nominal or par value for every ten shares without nominal or par value held by such shareholder. The plan calls for warrants to be issued to the shareholders which would trade through the facilities of the Alberta Stock Exchange.

Subject to the approval of the relevant authorities, it is also the company's intention to offer to shareholders the right to purchase five Class B shares at an issue price of one cent per share for every share without nominal or par value held by such shareholder. Only shareholders who are interested in exercising a vote in the affairs of the company should excerise their rights to purchase Class B shares as Class B shares have one vote per share but do not participate in dividends nor in any distribution upon the liquidation, dissolution or winding-up of the company.

Warrants entitling shareholders to purchase such shares would be mailed to shareholders as soon as practicable after the company receives the necessary approvals from the relevant authorities.

Outlook

Management continues to believe that the largest potential for the company is in the resource area where management intends to direct the majority of its expansion efforts. The potential for the drilling business in Canada appears to be favourable at the present time and management is anticipating good equipment utilization and better consolidated profitability in the coming year. Although Tract Equipment has entered a more mature stage in its development, management is hopeful that revenues and profits will continue to grow or at least be maintained at current levels. Although no assurances can be given about the company's future affairs, management is optimistic that 1980 will bring further success our way.

K.H. Lambert
President
February 27, 1980

Edmonton International Industries Ltd.

Consolidated Balance Sheet

November 30, 1979 and 1978

ASSETS

	1979	1978
Current assets		
Cash	$ 6,002	$ 10,950
Marketable securities, at cost (market value $428,200)	321,813	—
Receivables		
Trade	5,016,366	4,243,195
Demand promissory convertible note	—	537,500
Curent portion of notes receivable	370,416	370,416
Inventories, at the lower of cost and net realizable value	4,012,666	3,506,377
Other current assets	45,327	30,794
Total current assets	9,772,590	8,699,232
Non interest bearing notes, receivable in monthly instalments of $30,868, less current portion	679,102	1,049,518
Investment and advance (Note 3)	563,383	—
Oil and gas properties, accumulated costs (Note 4)	1,977,419	186,383
Land, buildings and equipment, at cost less accumulated depreciation (Note 5)	2,061,579	2,041,485
Distributor contracts and goodwill, at cost less accumulated amortization (Note 6)	2,133,333	2,233,333
Other assets (Note 7)	49,910	85,479
	$ 17,237,316	$ 14,295,430

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current liabilities		
Bank indebtedness (Note 8)	$ 2,775,459	$ 1,885,430
Payables and accruals		
Trade	2,317,544	1,860,645
Current portion of long term debt	1,064,959	792,500
Notes payable	62,202	140,000
Advances on contract	—	199,365
Income taxes	167,394	54,627
Total current liabilities	6,387,558	4,932,567
Long term (Note 9)	4,105,225	3,651,933
Deferred income taxes	681,416	555,159
	11,174,199	9,139,659
Contingent and committments (Notes 10 and 11)		
Share capital (Note 12)	3,012,510	3,012,510
Retained earnings	3,050,607	2,143,261
Total shareholders' equity	6,063,117	5,155,771
	$ 17,237,316	$ 14,295,430

(See accompanying notes.)

ON BEHALF OF THE BOARD Director "L.T. Lambert" Director "K.H. Lambert"

Edmonton International Industries Ltd.

Consolidated Statement of Income and Retained Earnings

Year Ended November 30, 1979 and 1978

	1979	1978
Income		
Sale of products and contract revenues from drilling and transport operations	$ 19,318,457	$ 15,960,025
Interest earned on notes receivable and term deposits	153,199	110,599
	19,471,656	16,070,624
Expenses		
Cost of sales, selling, general and administrative	17,094,742	14,381,828
Amortization of goodwill and distributor contracts	100,000	100,000
Depreciation	475,007	276,764
Interest on long term debt	626,628	394,698
Other interest	156,710	93,418
	18,453,087	15,246,708
Income from operations	1,018,569	823,916
Gain on sale of marketable securities	105,348	—
Gain on sale of equipment	56,768	46,458
Income before income taxes and extraordinary item	1,180,685	870,374
Income taxes - current	151,013	(7,013)
- deferred	349,900	393,208
	500,913	386,195
Income before extraordinary item	679,772	484,179
Extraordinary item		
Income tax reduction due to applying loss carry forward for income tax purposes, deferred	227,574	62,640
Net income	907,346	546,819
Retained earnings, beginning of year	2,143,261	1,596,442
Retained earnings, end of year	$ 3,050,607	$ 2,143,261
Earnings per share (based on the average number of shares outstanding)		
Before extraordinary item	$.21	$.15
After extraordinary item	$.27	$.17

(See accompanying notes.)

Consolidated Statement of Changes in Financial Position

Year Ended November 30, 1979 and 1978

	1979	1978
Financial resources were provided by		
Operations		
Net income	**$ 907,346**	$ 546,819
Items not affecting working capital		
Amortization of goodwill and distributor contracts	**100,000**	100,000
Depreciation of buildings and equipment	**475,007**	276,764
Deferred income taxes	**126,257**	256,133
Gain on sale of equipment	**(56,768)**	(46,458)
Total provided from operations	**1,551,842**	1,133,258
Reduction of notes receivable	**370,416**	370,416
Proceeds from sale of equipment	**556,342**	614,389
Long term debt	**1,782,514**	1,822,298
Reduction in other assets	**35,569**	—
	4,296,683	3,940,361
Financial resources were used for		
Purchase of		
Land, buildings and equipment	**994,675**	1,939,925
Oil and gas properties	**1,791,036**	186,383
Investment and advance	**563,383**	—
Reduction of long term debt	**1,329,222**	916,430
Increase in other assets	**—**	73,748
	4,678,316	3,116,486
Increase (decrease) in working capital	**(381,633)**	823,875
Working capital, beginning of year	**3,766,665**	2,942,790
Working capital, end of year	**$ 3,385,032**	$ 3,766,665

(See accompanying notes.)

Consolidated Financial Statements Auditors Report

To the Shareholders of
Edmonton International Industries Ltd.

We have examined the consolidated balance sheet of Edmonton International Industries Ltd. as at November 30, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winspear Higgins Stevenson & Co.
Chartered Accountants
Edmonton, Alberta
February 1, 1980

Notes to Consolidated Financial Statements

November 30, 1979

1. Accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Speedway Properties Ltd., which is inactive, and Odyssey Resources Ltd., and its 50% pro rata share of assets, liabilities, income and expenses of the following incorporated and unincorporated joint ventures and partnership:

SDS Drilling Ltd. (a corporate joint venture) for the year ended October 31, 1979

SDS Drilling International Ltd. (a corporate joint venture) for the year ended November 30, 1979

SDS Drilling S.A. (a joint venture) for the eleven month period ended October 31, 1979 (date of termination of joint venture)

SDS Drilling Management (a partnership) for the eleven month period ended October 31, 1979 (date of termination of partnership)

(b) Contract revenues from drilling and transport operations

The joint ventures follow the percentage of completion method in recognizing income from specific projects.

(c) Translation of foreign currency

Foreign currency transactions have been translated into Canadian funds at the average rate for the period.

(d) Oil and gas properties

The company intends to follow the full cost method of accounting whereby all costs related to exploration and development of oil and gas reserves are capitalized and are depleted on the unit of production method based on estimated recoverable reserves.

(e) Fixed assets

Depreciation of buildings and equipment is calculated at rates considered to be sufficient to provide full amortization over the estimated useful life of the buildings and equipment. The depreciation rates are as follows:

Buildings	5% straight line
Drilling rigs	15% straight line
Drill pipe and accessories	35% diminishing balance
Automotive equipment	20%-35% straight line
Field equipment	20% straight line
Office and shop equipment	10% straight line

(f) Distributor contracts and goodwill

Amortization is recorded on the straight line method over twenty-five years.

(g) Deferred income taxes

Deferred income taxes result primarily from claiming amortization and depreciation and oil and gas exploration and development expenses for income tax purposes in excess of the amounts recorded in the accounts.

2. Accounting for joint ventures and partnership

The joint venture and partnership operations are accounted for by the proportionate consolidation method under which the company's pro rata share of the joint ventures' and partnership assets, liabilities, income and expenses are included in the consolidated financial statements.

The company's pro rata share of the joint venture and partnership operations included in the consolidated financial statements is summarized below. Transactions between the joint ventures and partnership have been eliminated.

Edmonton International Industries Ltd.

Notes to Consolidated Financial Statements

November 30, 1979

Balance Sheet

Assets

	1979	1978
Current assets		
Cash	$ 3,974	$ 8,177
Receivables	2,215,458	1,513,693
Inventories	681,077	286,122
Other current assets	31,505	16,931
Total current assets	2,932,014	1,824,923
Land, buildings and equipment, at cost less accumulated depreciation	2,004,898	1,978,213
Deferred income taxes	238,660	—
Other assets	38,521	73,989
	$ 5,214,093	$ 3,877,125

Liabilities and Owners' Equity

	1979	1978
Current liabilities		
Bank indebtedness	$ 764,159	$ 492,191
Payables and accruals		
Trade	1,012,160	591,014
Current portion of long term debt	504,959	232,500
Advances on contract	—	199,365
Notes payable	62,202	140,000
Income taxes	18,151	52,627
Total current liabilities	2,361,631	1,707,697
Long term liabilities	1,020,926	1,443,885
Deferred income taxes	—	119,495
Total liabilities	3,382,557	3,271,077
Owners' equity including advances	1,831,536	606,048
	$ 5,214,093	$ 3,877,125

Statement of Income

	1979	1978
Income		
Contract revenues from drilling and transport operations	$ 5,277,390	$ 3,483,013
Expenses		
Cost of sales, selling, general and administrative	4,416,211	2,943,139
Depreciation	460,403	252,514
Interest on long term debt	319,171	118,823
Other interest	118,739	34,269
	5,314,524	3,348,745
Income (loss) from operations	(37,134)	134,268
Gain on sale of equipment	61,431	46,458
Net income before income taxes and extraordinary item	24,297	180,726
Income taxes - current	1,225	(9,013)
- deferred	(130,581)	93,954
	(129,356)	84,941
Net income before extraordinary item	153,653	95,785
Extraordinary item		
Income tax reduction due to applying loss carry forward for income tax purposes, deferred	227,574	62,640
Net income	$ 381,227	$ 158,425

Statement of Changes in Financial Position

	1979	1978
Financial resources were provided by		
Operations		
Net income	$ 381,227	$ 158,425
Items not affecting working capital	40,817	162,935
Total provided from operations	422,044	321,360
Proceeds from sale of equipment	550,842	604,489
Long term debt	58,215	1,634,250
Advances from Edmonton International Industries Ltd.	844,261	—
Decrease in other assets	35,468	—
	1,910,830	2,560,099
Financial resources were used for		
Purchase of land, buildings and equipment	976,499	1,922,999
Reduction of long term debt	481,174	350,720
Increase in other assets	—	62,258
	1,457,673	2,335,977
Increase in working capital	$ 453,157	$ 224,122

3. Investment and advance

SDS Drilling Ltd. (a corporate joint venture)	
Secured debentures, Series B, bearing interest at prime plus 6%, due September 7, 1982	$ 230,000
Other advances	333,383
	$ 563,383

The above represents funds advanced by the company in excess of 50% of total advances of $1,666,766 by the participants.

4. Oil and gas properties

Significant reserves have been discovered but as no development wells have been drilled and as there has been little production to date no depletion has been recorded in the company's accounts.

The company is a party to an agreement whereby it is committed to expending additional funds totalling approximately $728,000 on the present program.

5. Land, buildings and equipment

	1979			1978
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 30,143	$ —	$ 30,143	$ 30,000
Buildings	102,473	4,687	97,786	85,000
Drilling rigs	1,252,395	262,235	990,160	1,125,026
Drill pipe and accessories	267,557	99,544	168,013	100,217
Automotive equipment	717,537	259,091	458,446	381,788
Field equipment	382,263	95,251	287,012	292,942
Office and shop equipment	38,379	8,360	30,019	26,512
	$ 2,790,747	$ 729,168	$ 2,061,579	$ 2,041,485

6. Distributor contracts and goodwill

	1979			1978
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Distributor contracts	$ 1,000,000	$ 146,667	$ 853,333	$ 893,333
Goodwill	1,500,000	220,000	1,280,000	1,340,000
	$ 2,500,000	$ 366,667	$ 2,133,333	$ 2,233,333

7. Other assets

Included in other assets is an amount of $8,500 which is the cost of an option the company holds to purchase 188,927 common shares, from treasury, of Mineral Resources International Limited at the rate of $1.60 per share at any time during the two year period which commenced September 7, 1978.

On January 31, 1980 the company exercised its option by paying $302,283 and receiving 188,927 common shares plus 188,927 warrants, expiring on February 28, 1980, entitling the company to purchase a further 62,976 shares of Mineral Resources International Limited at the rate of $1.50 per share.

8. Bank indebtedness

The bank indebtedness consists of:

	1979	1978
Cheques issued in excess of bank balance	$ 1,637,959	$ 1,215,430
Operating loans	1,137,500	670,000
	$ 2,775,459	$ 1,885,430

The bank indebtedness is secured by a general assignment of accounts receivable, assignment of fire insurance proceeds on inventories, by a 14% floating charge demand debenture in the amount of $3,000,000, a second floating charge debenture in the amount of $2,000,000, hypothecation of the marketable securities and notes receivable, and a postponement of claim signed by Eltel Holdings Ltd. relating to the $2,500,000 debenture issued by the company to Eltel Holdings Ltd.

9. Long term liabilities

	1979	1978
Bank term loans, at prime plus 1¼% to 2%, payable in varying instalments plus interest	$ 2,286,250	$ 2,101,750
Payable on purchase of business		
On purchase of distributor contracts, maturing in five semi-annual instalments of $100,000 each commencing July 1, 1979 and one instalment of $500,000 on January 1, 1982 plus interest of 10% per annum from January 1, 1978	900,000	1,000,000
On purchase of goodwill, maturing in five semi-annual instalments of $100,000 each which commenced January 1, 1977 and ten semi-annual instalments of $100,000 each commencing July 1, 1982 plus interest of 10% per annum from January 1, 1978	1,000,000	1,100,000
Payable on purchase of oil and gas properties	889,299	—
Finance contracts, agreement for sale and promissory notes	63,215	200,548
Payable to shareholders to corporate joint venture	31,420	42,135
	5,170,184	4,444,433
Less: Current portion	1,064,959	792,500
	$ 4,105,225	$ 3,651,933

The payable on purchase of oil and gas properties has been classified as long term because it will be funded by a rights offering of preferred shares for which the parent company, 89644 Holdings Ltd. has guaranteed the underwriting in the amount of $1,000,000.

The bank term loans are subject to the security as set out in Note 8 and are also secured by a first fixed charge on certain assets and by a chattel mortgage on some of the equipment.

The amount payable on purchase of business is secured by a floating charge debenture in the amount of $2,500,000 on all of the company's assets and undertakings (Note 8).

On April 1, 1976 the company purchased the business and certain assets of Eltel Holdings Ltd. Under the terms of the agreement the amount payable for goodwill is subject to conditions precedent whereby certain sales volumes must be obtained by the industry and cumulative profits must be realized by this company in order for full payment to be required.

10. Contingent liabilities

(a) The company is contingently liable as an endorser of customers' notes in the approximate amount of $215,000 (1978 $420,000).

(b) SDS Drilling Ltd. (a corporate joint venture owned 50% by Edmonton International Industries Ltd.) is a participant in a joint venture in Saudia Arabia. Because of a dispute between the participants in the joint venture, operations have been suspended. Management estimates that the maximum before tax loss of SDS Drilling Ltd. arising from the dispute would be approximately $310,000 of which one half would become a loss of Edmonton International Industries Ltd. should the worst case become a reality.

11. Commitments

The company is liable with respect to letters of credit totalling $460,975 (1978 $650,450) issued by a chartered bank to ensure the fulfilment of certain obligations and to secure a contract advance.

12. Share capital

	1979	1978
Authorized		
400,000 9% cumulative redeemable convertible preferred shares with par value of $4 each		
16,500,000 Class B non-participating voting shares without par value		
6,000,000 common shares without par value		
Issued and outstanding		
3,300,000 common shares	**$ 3,012,510**	$ 3,012,510

During the year the company increased its authorized share capital from 400,000 9% cumulative redeemable convertible preferred shares with par value of $4 each and 6,000,000 common shares without par value to the amount shown above.

13. Remuneration to directors and senior officers

Remuneration to directors and senior officers, including the five highest paid employees, amounted to $188,877 (1978 $151,845).

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